



# Memorandum

**TO:** Honorable Mayor and City Council  
Redevelopment Agency Board

**FROM:** Del D. Borgsdorf  
Harry S. Mavrogenes

**SUBJECT: PARKING PRIORITIES AND  
PARKING TRIGGERS UPDATE**

**DATE:** 06/01/05

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## **RECOMMENDATION**

Approve the annual update to the parking priorities and triggers report to be used as the basis to initiate future parking development.

## **BACKGROUND**

In May 2004, the City Council and the Redevelopment Agency Board approved a revised framework for the implementation of short-term and long-term priorities within the Parking Management Plan (PMP) initially approved in 2001. Although the basic priorities of the PMP remained sound, a modified, less aggressive implementation framework, based upon relevant triggers, was developed to address the continued decline in parking demand, which has diminished the immediate need for implementation of the PMP priorities.

These changes were primarily due to the continued economic environment, which has had significant negative impact on parking demand as well as on the financial ability of the City's Parking Fund and Redevelopment Agency's Tax Increment revenues to fund the unfunded priority projects identified in the Parking Management Plan.

Subsequently, staff was directed to continue monitoring the economic climate, maintain existing reserves in the Parking Fund, and explore options to continue progress on the PMP including development of Parking Plus in the CIM project on the 2<sup>nd</sup> and Santa Clara and Block 3 sites. In 2004, the Council approved the short and long-term priorities listed below:

1. Parking Plus at the 2<sup>nd</sup> and Santa Clara site
2. Parking Plus at the Block-3 site
3. Site acquisition of the Notre Dame location for future parking facility development
4. Construction of the Notre Dame Parking Garage
5. Site acquisition of the Greyhound location for future parking facility development
6. Construction of the Greyhound Parking Garage

Parking Plus at the 2<sup>nd</sup> and Santa Clara site (29 of 67 public spaces) is fully funded and under construction as part of the CIM project. Parking Plus at the Block-3 site (338 spaces in two phases), is in the design phase, fully funded, with an expected phase one completion of fall 2007. Priorities three through six above have not been funded at this time.

## **ANALYSIS**

### **Downtown Economic and Parking Analysis**

As reported in May 2004, the downturn in economic conditions necessitated a re-evaluation of the economic and parking activity projections contained in the PMP. This section of the report updates key indicators of economic and parking activity in the Downtown that are important milestones to initiate parking development.

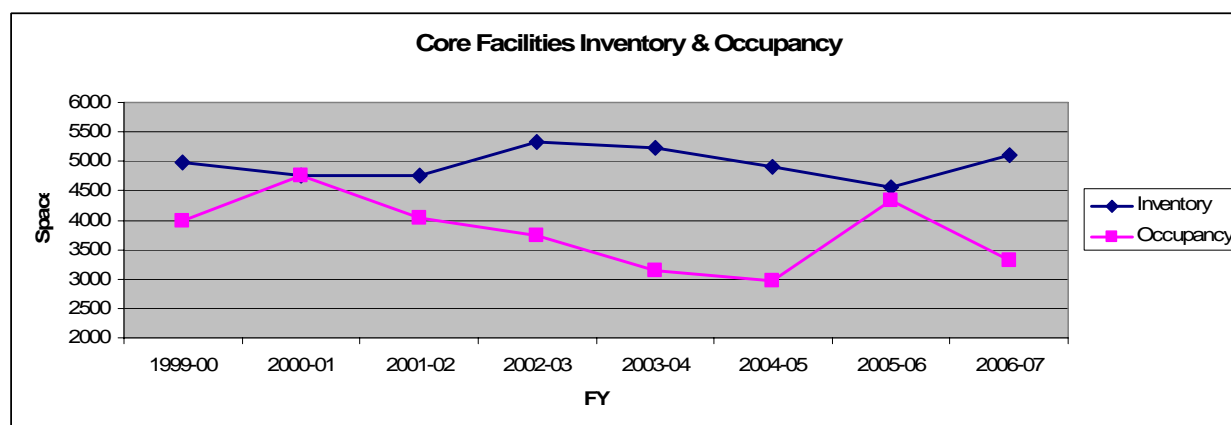
**Office Vacancy Rates** – The office vacancy rate in Downtown San Jose increased slightly from 21% in the spring of 2004 to 23.4% in the spring of 2005 according to data published by Ritchie Commercial. The current vacancy rate represents approximately 980,000 square feet of vacant Class “A” office space and 800,000 square feet of vacant Class “B” office space. Class “B” offices are generally more dependent on the public parking system for their parking needs because of their limited on-site parking. Based upon previous parking demand studies, 800,000 square feet of vacant space represents a reduction in daytime parking demand of approximately 2,400 to 2,800 spaces.

Discussions with commercial office brokers indicate that significant recovery of the Downtown office market will most likely not occur until 2007, with anticipation that it would take approximately another two years (2009) to reach office occupancy levels above 90%.

**Current and Projected Parking Demand** – The Parking Management Plan, approved in November 2001, forecasted anticipated short and long-term parking demand of approximately 4,625 spaces by 2008. Unfortunately, due to the economic downturn since the PMP was approved in 2001, most of the demand increasing factors have not materialized, and as a result, the original projections were updated in 2004 to reflect the short and long-term conditions. However, with the opening of the new Downtown City Hall in June 2005 and use of the Downtown core parking facilities for City Hall employees until May 2006, a temporary occupancy increase of up to approximately 90 to 95% is anticipated between August 2005 and May 2006. Thereafter, the core occupancy is anticipated to return to levels around 65% in June 2006 with the loss of surface parking due to development and the opening of the City Hall Off-Site garage. The City Hall Off-Site garage with 1,128 spaces will be available for public parking in the evening and weekends. Refinements to the revised projections are described below:

- Since the last Council update in 2004, the Market/Balbach surface lot with 308 spaces was closed in March 2005 to begin the construction of the interim Convention Center expansion.
- A planned housing project at the 1<sup>st</sup> and Bassett lot (Classic Homes project), and a mixed-use project at Block-3 (CIM project, Phase I) would eliminate approximately 360 spaces in summer and fall 2005. Ultimately, 338 parking plus spaces would be replaced at Block-3.
- The next series of developments that would impact the parking supply include the 1<sup>st</sup> and Julian lot (Regis project), 2<sup>nd</sup> and St. James lot (Swenson project), Dimension lot (Mesa project), and Block-8 lot (Urban West project) eliminating four temporary surface lots with 440 spaces by December 2006.

- Except for the new Martin Luther King Junior Library, which opened in August 2003, and the California Theatre in September 2004, the additional parking demand anticipated in the PMP has not materialized and demand remains much lower than projected. In 2001, when the PMP was first developed and approved, the public parking system experienced an occupancy level close to 100% at Downtown core facilities and an occupancy level of approximately 70% at peripheral locations. The core inventory in spring 2004 was approximately 5,250 spaces with average peak occupancy of approximately 60% (about 3,130 spaces occupied). The current inventory in the spring of 2005 is approximately 4,900 spaces (about 350 space reduction since 2004) with average peak occupancy of 57% (about 2,800 spaces occupied). The graph below depicts the core parking inventory and occupancy history and two-year forecast by fiscal year:



Based on the changes outlined above, and a delayed economic recovery, the short-term and long-term timelines in the PMP were adjusted to 2008 and 2011 respectively, which is still relevant.

### **Sub-Area Parking Supply & Demand Analysis**

- **North Core (St. James/Julian Area) Occupancy, Supply & Demand** - The north core area of Downtown bounded by Saint James Street to the south, Bassett Street to the north, 3<sup>rd</sup> Street to the east and Market Street to the west was evaluated in the development of the PMP in 2001. The PMP did not anticipate development of any additional long-term supply in this area since no additional demand-generating parking venues were identified for this area. In anticipation of the loss of three temporary parking lots in this area (1<sup>st</sup>/Bassett lot - 160 extremely underutilized spaces just to the north of the study area in July 2005; 1<sup>st</sup>/Julian lot - 81 spaces, January 2006; and 2<sup>nd</sup>/St. James lot - 138 spaces, spring 2006), two on and off-street parking occupancy counts were conducted in July 2004 and February 2005 with peak occupancy of 65%. Additionally, since the PMP was approved, approximately 200 on and off-street parking spaces have been added in and near the district. The two occupancy analyses determined that after the loss of the three parking lots, the peak occupancy would only increase by approximately 4% and not exceed 69%. Staff has been directed to complete the parking occupancy/management analysis for this area and submit the results to the Council by August 2005.

- **SoFA District Occupancy, Supply & Demand** – Similarly, the 2001 PMP reviewed parking supply, demand and occupancy in the SoFA District. The PMP identified development of long-term parking supply through the Parking Plus strategy with future development at the Valley Title parking lot located between First and Second and south of San Carlos streets. However, the closure of the Market/Balbach parking lot in March 2005 due to the interim expansion of the Convention Center has reduced parking supply by approximately 300 spaces. To address this reduction, in March 2005, the City Council approved a plan to include 675 public parking spaces in the Convention Center parking garage in the Downtown Retail Validation Program and create a new discounted evening rate to reduce the impact of the loss of free parking at the Market/Balbach parking lot. In coordination with the Downtown Association, staff added additional signage, and is developing a marketing plan (that includes more signage) to promote the availability of the Convention Center garage. Furthermore, the Downtown Association recently marketed the Retail Validation Program to businesses in the SoFA District.

Nighttime activity in the SoFA District continues to draw patrons to the various venues and parking facilities in the area. Generally, parking demand has been higher at City facilities compared to private facilities, due to the fact that most City facilities provide free parking after 6:00 pm. The primary parking facilities on the SoFA District include the City's 2<sup>nd</sup> and San Carlos garage, Market/San Salvador lot, and the Convention Center garage. The Convention Center garage has seen an increase in evening/late night activity since the discounted evening rate was established and the Market/Balbach lot was closed. The district also has numerous private parking facilities including the Valley Title Lot and the private lot next to the YWCA. Other facilities available just outside SoFA, but within walking distance, include the Market/San Carlos lot, the Pavilion garage, Block-3, and the I-280/First Street lot.

### **Parking Project Priorities Status**

#### **1. Parking Plus at the 2<sup>nd</sup> and Santa Clara Site**

The CIM project at 2<sup>nd</sup> and Santa Clara, which is under construction and projected to be complete in early 2006 includes 67 public parking spaces (29 of which are Parking Plus spaces and funded by the Agency). The public parking garage will be owned by the City and managed by CIM under an operating agreement.

#### **2. Parking Plus at the Block-3 Site**

In February 2005, the Agency Board approved the 3<sup>rd</sup> amendment to the CIM Development and Disposition Agreement. The 3<sup>rd</sup> amendment provides for construction of 338 Parking Plus spaces in two phases at the Block-3 project with an expected phase one completion of fall 2007. Funding is secured through a \$13 million HUD loan by the Agency. The project is currently in design and construction commencement is expected for the fall 2005. This parking facility would be owned by the Agency and managed by CIM. The garage will offer market rate parking so that revenues could be used to pay the HUD loan payment.

### **3. Acquisition of Notre Dame Site**

The Notre Dame site was identified as a one of the two top priority sites for the development of a parking structure with approximately 850 parking spaces in the PMP. In October 2003, the Council/Board established land acquisition of the Notre Dame site as the third overall priority, ahead of Greyhound because the Greyhound site was identified as the preferred site of the Federal Government for a new Federal Court House and office building. The Notre Dame site would also be less costly in terms of acquisition, relocation, and construction. Acquisition would take approximately one year after a decision is made to proceed. A 2002 appraisal estimated the value of the affected private parcels at \$5.2 million.

### **4. Construction of Notre Dame Garage**

Schematic design plans for the Notre Dame Parking Garage were completed in January 2003. Final design would take approximately one year from the time of a decision to proceed. Construction of a free standing parking structure is estimated to take 18 months. Therefore, it would take an overall 2 ½ to 3 years to complete this parking structure from the time the project receives final approval. Construction may take longer if the plans include mixed-use opportunities such as housing or office. The program cost estimate for final design, site preparation, project management and construction of this 850-space facility was estimated at approximately \$31.4 million in January 2003.

### **5. Acquisition of Greyhound Site**

As directed by the Council in October 2003, this site was placed fifth on the priority list because it has been identified as the preferred site of the Federal Government for a new Court House. A 2002 appraisal estimated the value of the land and relocation at \$9.7 million. Acquisition and relocation would take approximately one year from the time it is authorized to proceed.

### **6. Construction of Greyhound Garage**

Schematic design plans for the Greyhound facility were completed in January 2003. Considering land acquisition, relocation of the Greyhound Bus Terminal, final design, and construction, it would take an estimated 2 ½ to 3 years to complete this parking structure from the time the project receives final approval. Construction may take longer if the plans include mixed-use opportunities. The program cost estimate for final design, site preparation, project management and construction of this 1,000-space facility was estimated at approximately \$33.7 million in January 2003.

## **Economic and Parking Demand Triggers**

The table on the next page outlines the economic and parking demand triggers developed in spring 2004, and updated for this report. These four triggers have two sets of milestones, which once met, would (1) initiate discussion for site acquisition for a parking facility; and (2) initiate final design and construction.

These triggers represent the most fundamental factors that influence public parking demand and occupancy, and ultimately the ability to fund the development of a new parking facility. Each trigger was set to ensure that meaningful changes in economic conditions would be acted upon in

timely manner (e.g. to stay in front of the power curve). The first milestones would initiate discussion for land acquisition, and are set much lower than the second milestones that would initiate final design and construction.

Triggers	Baseline Spring 2004	1 <sup>st</sup> Milestone Site Acquisition	2 <sup>nd</sup> Milestone Design/Construction	Spring 2005 Status
<b><u>Decrease</u></b> in Class “B” Office Vacancy Rates in Downtown	20%	20% to 17%	17% to 10%	25%
<b><u>Increase</u></b> in parking demand and occupancy in City parking facilities	60%	60% to 66%	66% to 80%	57%
<b><u>Increase</u></b> in Parking Fund Revenue above 2003-04 actuals	\$10.06M	2% \$10.06 to \$10.26M	12% \$10.26 to \$11.50 M	\$9.28M
<b><u>Increase</u></b> in Tax Increment Revenue above 2003-04 actuals	\$167M	0-1% \$167 to \$168.67 M	5% \$175.35 to \$177.10 M	\$148M

Staff has monitored the triggers since the spring 2004. The right column in the above table represents the status of the four triggers as of the spring 2005. The changes in the triggers from 2004 to 2005 do not warrant action as all four triggers have moved further away from the targets.

The first trigger, office occupancy rates, represents the single most important factor that influences daytime parking demand in Downtown. Office occupancy, which approached 100% in early 2001, was the direct affect in creating parking occupancies close to 100% in the City’s core parking facilities. Currently, the Downtown office vacancy rate is slightly over 23%, a reduction of approximately 2.4% from the 2004 level. Generally, a 2.4% reduction represents approximately 72,000 square feet of office space. This increase in office vacancy rates correlates to approximately 220 parking spaces. Based upon a review of the Downtown office market and discussion with commercial office brokers, it is not expected that this trigger would be met until sometime in 2007, when noticeable economic recovery is expected.

The second trigger requires an increase in parking occupancy in City facilities by 6% (about 300 new parkers) in order to initiate discussion for land acquisition and 20% for initiating construction. The occupancy has actually decreased by 3% since establishment of the triggers in 2004. The third trigger, an increase in City parking revenue by 2% over the 2003-04 actual revenues of \$10.06M, represents an increase of \$200,000 in annual revenue to \$10.26M, however, 2004-05 parking revenues actually decreased by approximately \$800,000 (8%) from the 2004 level. The fourth trigger, an increase in SJRA tax increment revenue from 0 to 1% above 2003-04 actual levels would require an increase from \$167M to \$168.67M. However,

SJRA tax increment revenue has decreased by approximately 12% (\$20M) as compared to the FY 2003-04 level.

### **Parking Fund Debt Capacity Analysis**

The General Purpose Parking Fund is a special City fund that controls the financial activity of the City's parking system. The parking system consists of 5 parking garages, 15 surface lots, and 2,300 parking meters. Parking revenues are required to be deposited in the Parking Fund pursuant to the terms of the 4<sup>th</sup> and San Fernando bond documents. Only one parking garage in the system, the 4<sup>th</sup> Street garage, is financed through sale of bonds. The Redevelopment Agency pays the debt service (\$3.4M annual payments) for this garage. In April 2005, the City Council and Redevelopment Agency Board approved a loan in the amount of \$6.8M from the Parking Fund (Reserve for Future Parking Facility) to the Redevelopment Agency. The Agency will repay the loan in January 2009.

The Parking Fund has an operating and capital account, and various reserves. The Fund maintains a legally-required operating and maintenance reserve of approximately \$1.9M for the 4<sup>th</sup> Street garage and provides funding for capital improvements totaling approximately \$3.4 million in FY2005-06. After the loan payments to the Redevelopment Agency, a reserve balance of approximately \$6M is available at this time for future parking facility development. The Parking Fund's net operating surplus is approximately \$2.5M annually, which is in part used to fund the on-going investment in the capital improvements and in part to increase the reserves for future parking development.

### **Downtown Parking Board's Analysis and Recommendations**

The Downtown Parking Board (DPB) continues to play a key role in the development and implementation of various parking programs and services. At its April and May 2005 meetings, the Board discussed the current and anticipated parking supply and demand activities in the downtown and the PMP triggers and priorities. The Board shared its views on two specific fronts:

#### **1. Retail and Office Development Triggers**

The Board acknowledges that the parking vacancy rates in the downtown garages have gone up over the last year, and believes that the City should be prepared to meet the future demand when the market bounces back. Although the Board confirms the validity of the four existing triggers, it proposes that each of the four triggers be able to stand alone and when any one of the four triggers is met, the Board would agendaize the topic for discussion of identifying strategies for acquiring land, building new garages and securing necessary funding. Staff supports the Board's interest in engaging in such a discussion to determine appropriate actions.

#### **2. High Density Residential Developments and Leisure Activities**

The Board feels that the PMP prepared in 2001 centered around then proposed new retail and office developments. Due to a significant shift in the market conditions over the last 2-3 years, there has been greater interest in high density housing developments. Although the Board recognizes that such housing developments fulfill their own parking needs, they fail to provide much needed additional parking supply for increasing night time and weekend activities. The

Board recommends implementation of an aggressive Parking Plus program that would evaluate each development site and determine if adding more parking is viable.

The Board believes that the PMP largely focused on parking issues west of Market Street, away from new housing projects, restaurants and the New City Hall. Therefore, the Board recommends further analysis of parking needs in the area east of Market and south of San Fernando Street.

## **CONCLUSION**

The continued economic and financial environment has required a regular re-evaluation of our ability to implement priority projects in the PMP. Similarly, the reduction in parking demand has reduced the immediate need for implementation of the PMP on previously adopted schedules. Although the basic priorities of the PMP remain sound, the modified, implementation framework, based upon relevant triggers, is appropriate in tandem with continued monitoring of the economic and parking climate to ensure that noticeable changes are responded to in a timely manner to ensure long-term parking availability. The opening of the New City Hall and relocation of the city employees to the city parking garages and the loss of surface parking due to development will temporarily increase the parking demand at city garages until the new Off-Site employee garage is built by June 2006. An interim city-employee parking plan has been developed that will utilize the vacant spaces at city garages. In addition to the phase I of the Parking Guidance System, which will be completed by this fall, other mitigation steps such as stacked valet, new partnership with private parking operators and additional directional signage will be employed so that the parking needs of general public is not negatively impacted.

The Downtown Parking Board's input on the PMP triggers and priorities is valuable to the process. However, determination of where the next parking garage should be built and whether or not future housing site will provide opportunities to incorporate Parking Plus strategy requires further analysis and studies. To that end, staff would continue working with the Board and other Downtown stakeholders to analyze the changing parking conditions and the new development scenario, and revise this document as appropriate.

## **PUBLIC OUTREACH**

The Downtown Parking Board has discussed the parking triggers and priorities at numerous meetings and approved maintaining the existing triggers and priorities at its June 2005 meeting.

## **COORDINATION**

This report has been coordinated with the Departments of Transportation and the City Manager's Budget Office.

/s/  
Del D. Borgsdorf  
City Manager

/s/  
Harry S. Mavrogenes  
Executive Director